

PROVINCE OF SASKATCHEWAN



07-08

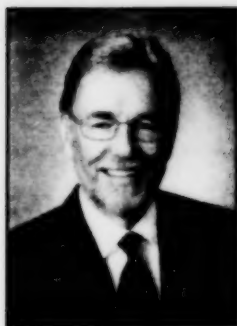
ANNUAL REPORT

**SASKATCHEWAN GRAIN CAR
CORPORATION**

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Letter of Transmittal



October 1, 2008

His Honour the Honourable Dr. Gordon L. Barnhart,
Lieutenant-Governor of Saskatchewan

I have the honour to submit herewith the Annual Report of the Saskatchewan Grain Car Corporation for the fiscal year ending July 31, 2008 in accordance with *The Saskatchewan Grain Car Corporation Act*. The Financial Statements are in the form approved by Treasury Board and have been duly certified by auditors for the Corporation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. Wayne Elhard".

Hon. D. Wayne Elhard
Minister Responsible for the
Saskatchewan Grain Car Corporation

President's Message

September 30, 2008

The Honourable D. Wayne Elhard
Chairman of the Board

Dear Sir:

As Acting President of the Saskatchewan Grain Car Corporation (SGCC), I am pleased to present the Annual Report for the Corporation for the fiscal year ending July 31, 2008.

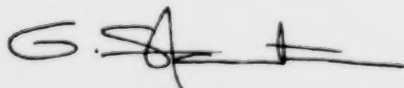
The mandate of the SGCC is to provide its hopper cars free to shippers when hauling statutory grain to port, with approximately 826,000 tonnes of statutory grain being moved in the 2007/08 fiscal year.

In the 2007/08 fiscal year the SGCC generated alternate use revenues \$ 1.86 Million. This is an increase of 14.4% over the previous years revenue of \$1.63 Million.

The Association of American Railroads (AAR) establishes and manages the rules governing equipment specifications and standards for all North American railways. In 2008, the AAR made the decision to change this rule to allow rail cars built after July 1, 1974 to apply for extended life status which will allow rail cars to remain in service for up to 65 years. As a result of this decision, the SGCC hopper car fleet has approximately 38 years of service remaining.

The SGCC hopper car fleet is in good condition as a result of the completion last year of a multi-year maintenance program. This program included upgrading the weight carrying capacity to 286,000 pounds, fatigue cracking repairs, and carrying out a complete maintenance overhaul on its hopper car fleet.

The Corporation's staff and I look forward to an exciting and challenging fiscal year in 2008/09.



George Stamatinos
Acting President

Quick Facts

Saskatchewan Grain Car Corporation

as of July 31, 2008

Corporation Established

Oct. 2, 1979

Office

Regina

Board of Directors

Hon. D. Wayne Elhard, Chairperson, Saskatchewan Grain Car Corporation

Hon. Bob Bjornerud, Vice Chairperson

John Law, Board Member

Alanna Koch, Board Member

Fleet

| | |
|--|---------------------------------|
| Cars in service | 915 |
| Cars allocated to CN (SKNX 397000-397476) | 424 |
| Cars allocated to CPR (SKPX 625000-625522) | 491 |
| Cars destroyed to date | 85 |
| Car volume | 128.8 m3 (4550 ft3) |
| LD LMT (Load Limit) | 101,605 kg (224,000 lbs) |
| LT WT (Light Weight – empty) | 28,123 kg (62,000 lbs) |
| Gross Weight | 129,728 kg (286,000 lbs) |
| Material | Steel |
| Lining | Epoxy |
| Dates built | February, 1981 to October, 1981 |

Financial

| | |
|---|--------------|
| Tangible capital assets as of July 31, 2008 – Hopper cars | \$16,531,890 |
| Total dividends paid to General Revenue Fund to date | \$15,000,000 |

Governing Legislation & Lease Agreements

The Saskatchewan Grain Car Corporation Act
Operating Agreement with CN, CPR, and CWB
Alternate Use Agreement with CN and CPR

Corporate Profile

Profile

In 1981, the Government of Saskatchewan made a strategic investment of approximately \$55,000,000 in Canada's grain transportation system by purchasing 1,000 covered hopper cars for the movement of export grain grown by western producers. This investment led to the development of the Saskatchewan Grain Car Corporation (SGCC) a Treasury Board Crown Corporation established under the authority of the *Saskatchewan Grain Car Corporation Act*.

The Saskatchewan Grain Car Corporation hopper car fleet is made available to the grain industry to assist them in getting their crops to market. This is done in two ways. For grain movements originating in the Prairie Provinces and destined to the port terminals in Thunder Bay, Churchill, Vancouver, and Prince Rupert, the SGCC makes its' equipment available at no charge to farmers. For grain movements originating in the Prairie Provinces and destined to inland destinations throughout Canada, the United States, and Mexico a commercial lease fees is charged for the use of the SGCC's hopper cars.

Corporate Report

The Saskatchewan Grain Car Corporation's (SGCC) mission is to use its resources to maximize the economic benefit to Saskatchewan agriculture as a first priority and for other industries and the province in general as a second priority. In order for the Corporation to remain focused on these priorities, management must be centered on the core hopper car fleet management business while keeping up to date and involved in new innovations and developments in the industry.

The 2007/08 fiscal year has proved to be a very interesting and challenging time for the Corporation. The Corporation's main focus was on managing the 915 steel covered hopper cars.

Management of the Hopper Car Fleet

Utilization of SGCC Fleet

The Corporation's management continues to monitor and work with the railways to ensure that the hopper car fleet is being utilized to its maximum potential under the existing operating agreements.

The SGCC was able to meet its core mandate of ensuring that the hopper car capacity is made available to western farmers for the transportation of their grain to export position.

The 2007/08 crop year saw grain volumes moved in SGCC hopper cars down slightly from the 2006/07 crop year. 1,102,622 tonnes of grain was hauled in SGCC hopper car as compared to 1,139,189 tonnes in the previous year. This equates to a year over year decline of approximately 3.2%.

While the overall tonnage hauled in SGCC hopper car declined slightly for the year, a greater percentage of the overall tonnage hauled were alternate use movements for which lease revenue is received.

Alternate use revenues are received for grain moved to domestic destinations throughout Canada, the United States and Mexico.

In 2007/08 fiscal year, 276,676 tonnes were hauled in commercial grain movements as compared to 250,049 in the previous fiscal year.

As a result, the SGCC saw record revenues for the 2007/08 fiscal year. In the fiscal year 2007/08 the SGCC had alternate use revenues of \$1,864,169. This is an increase of 14.4% over the previous year.

Summary of Key Activities

Management of the SGCC Fleet

- **Alternate use revenues for grain movements to domestic destinations throughout Canada, the United States and Mexico reached a record level of \$1,864,169 in the 2007/08 fiscal year. This is the highest lease revenue in the SGCC's history.**

Operations Overview

The SGCC hopper car fleet consists of 915 hopper cars with a cubic capacity of 4550 cubic feet and a total load limit of 101,605kg (224,000lbs.)

Canadian National Railway Ltd. (CN) and Canadian Pacific Railway Ltd. (CPR) have an assigned percentage of the Corporation's hopper car fleet. This allocation can be adjusted on a bi-annual basis based on the total tonnes handled by each railway in the most recent five year period. At the start of the 2007/08 fiscal year, CN had 429 and CPR had 493 hopper cars assigned, respectively.

Throughout the year, CN had 5 cars destroyed due to derailments and CPR had 2 car destroyed, leaving them with 424 and 491 hopper cars respectively. A detailed summary of the destroyed cars can be found on page 25 of this report.

The railway responsible for a destroyed hopper car is required to compensate the Corporation based on the guidelines defined by the Association of American Railroads (AAR). The compensation received for the destroyed hopper cars is placed into a Reserve Fund to be used for the replacement and refurbishment of the SGCC fleet.

The Corporation's staff continues to use a computerized car tracking system to monitor the day-to-day movements of the fleet, enabling them to identify such things as inactive cars, bad orders and determining the destinations of movements for billing purposes.

This system assists in identifying issues around the timely repair of hopper cars, notification of destroyed cars leased to the railways, and identifying periods where the cars can be utilized for commercial leasing.

The Corporation's hopper car fleet is utilized for both statutory and commercial movements. The majority of the movements are statutory grain movements. They originate in western Canada and are destined for export through port facilities in Thunder Bay, Churchill, Prince Rupert and Vancouver. These movements are defined in the 1981 Operating Agreement between SGCC, the Canadian Wheat Board (CWB), CN and CPR. The SGCC provides its hopper cars free of charge for all statutory grain movements.

The commercial movements are all grain movements destined to the U.S. and Mexico or to non-export points in Canada or non-grain commodities such as potash, to all destinations. Commercial movements are subject to full commercial lease rates.

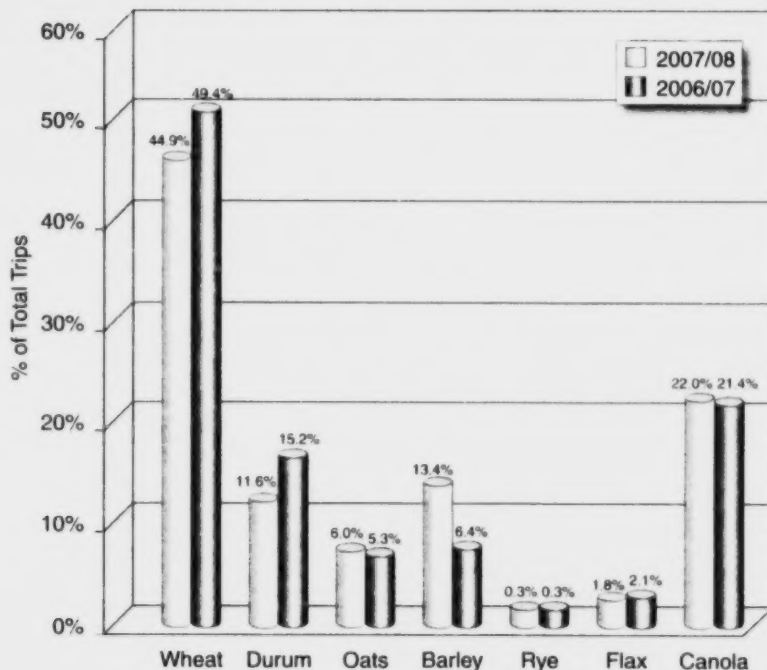
2007/08 Fleet Highlights

- 424 hopper cars on CN Lines
- 491 hopper cars on CPR Lines
- 7 hopper cars destroyed
- 85 hopper cars destroyed to date

Hopper Car Activity

The 2007/08 crop year saw grain volumes moved in SGCC hopper cars down slightly from the 2006/07 crop year. 1,102,622 tonnes of grain was hauled in SGCC hopper car as compared to 1,139,189 tonnes in the previous year. This equates to a year over year decline of approximately 3.2%.

Summary of all grain (Statutory and Commercial) movements in SGCC cars 2007/08 - 2006/07



Summary of all grain (Statutory or Commercial) movements in SGCC cars

| Commodity | 2007/2008 | | 2006/2007 | |
|--------------|---------------|------------------|---------------|------------------|
| | Total Trips | Tonnes | Total Trips | Tonnes |
| Wheat | 5,696 | 529,560 | 6,445 | 593,182 |
| Durum | 1,468 | 139,900 | 1,978 | 185,611 |
| Oats | 760 | 55,937 | 689 | 50,993 |
| Barley | 1,703 | 138,433 | 837 | 68,985 |
| Rye | 41 | 3,370 | 34 | 2,815 |
| Flax | 228 | 17,356 | 272 | 20,705 |
| Canola | 2,792 | 218,066 | 2,791 | 216,898 |
| TOTAL | 12,688 | 1,102,622 | 13,046 | 1,139,189 |

Statutory Grain Service

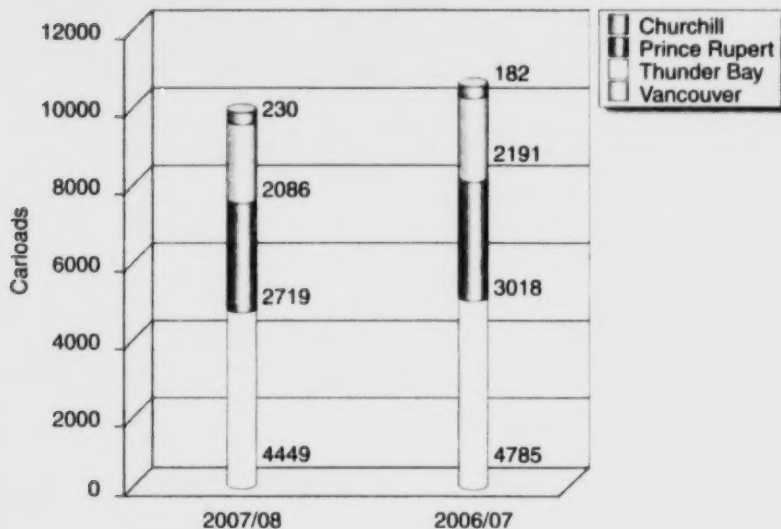
Statutory movements are allowed under the original 1981 Operating Agreement between the SGCC, CN, CPR and CWB in which the rail companies are allowed to use the Corporation's cars free of charge to move the six major grains from the Prairie Provinces to port locations at Thunder Bay, Churchill, Vancouver and Prince Rupert for export. The six major grains covered under the original 1981 agreement included: Wheat/Durum, Oats, Barley, Rye, Flax, and Canola. As the agricultural sector has diversified and evolved this list was expanded and now includes approximately 60-grain crops or products as listed under Schedule II of the *Canada Transportation Act*. Movements

of these Schedule II commodities, to western Canadian ports for export, are considered statutory movements and the railways are allowed to use SGCC hopper cars at no charge

CWB statistics reported total statutory movements of 825,939 tonnes in 2007/08 as compared to 889,143 tonnes in the previous crop year. This is a 7.1% decrease in statutory movements of the six major grains. Statutory grain service accounted for 74.9 % of all grains and oilseeds tonnage moved in 2007/08. This is down from the 78.1% in the previous year.

| Summary of statutory grain movements in SGCC cars | | | | |
|---|--------------|----------------|---------------|----------------|
| Commodity | 2007/2008 | | 2006/2007 | |
| | Total Trips | Tonnes | Total Trips | Tonnes |
| Wheat | 4,510 | 419,976 | 5,091 | 469,784 |
| Durum | 864 | 81,364 | 1,424 | 132,791 |
| Oats | 173 | 11,912 | 177 | 12,593 |
| Barley | 1,269 | 103,373 | 577 | 47,806 |
| Rye | 19 | 1,720 | 19 | 1,690 |
| Flax | 200 | 15,255 | 246 | 18,755 |
| Canola | 2,449 | 192,339 | 2,642 | 205,724 |
| TOTAL | 9,484 | 825,939 | 10,176 | 889,143 |

Statutory Grain Services – Destinations 2007/08 - 2006/07



Alternate Use/Commercial Service

Alternate use movements are those hopper car movements outside the parameters of the 1981 Operating Agreement. The Corporation has formal alternate use agreements signed with CN and CPR allowing the railways to transport commodities when the SGCC hopper cars are not required in statutory grain service, on a fee for service basis. The majority of the movements are for the carriage of the six major grains to domestic destinations throughout Canada, the United States and Mexico.

Alternate use revenues for grain movements to domestic destinations throughout Canada, the

United States and Mexico reached \$1,864,169 for the 2007/08 fiscal year. This is an increase of 14.4% over the previous years revenues and represents the highest leasing revenue in the SGCC's 27 year history.

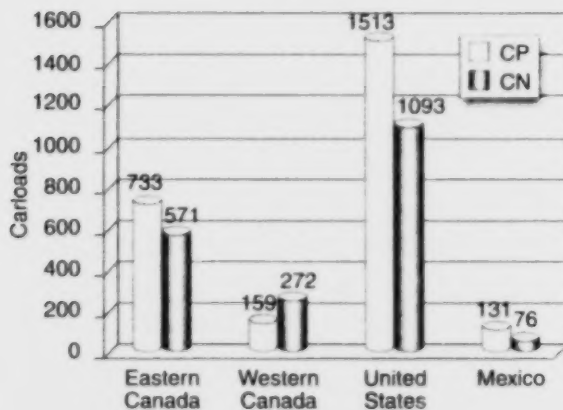
In 2007/08 SGCC hopper cars were used in 3,204 commercial car movements. This is an increase of 11.6% from 2006/07.

The alternate use trips are split between the two major railways, CN and CPR with 44% and 56% respectively.

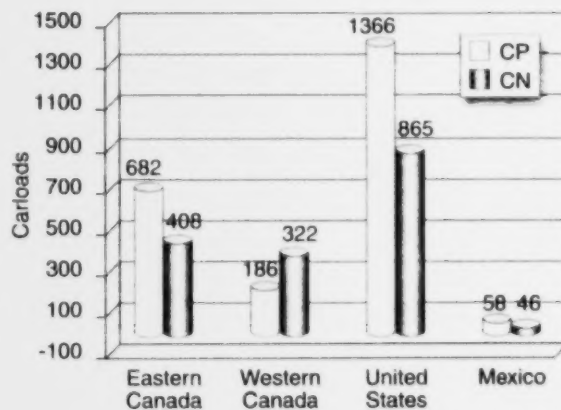
Commercial CWB Grain Movements in SGCC Cars by Commodity Hauled

| Commodity | 2007/2008 | | 2006/2007 | |
|--------------|--------------|----------------|--------------|----------------|
| | Total Trips | Tonnes | Total Trips | Tonnes |
| Wheat | 1,186 | 109,582 | 1,355 | 123,398 |
| Durum | 604 | 58,536 | 554 | 52,819 |
| Oats | 587 | 44,025 | 512 | 38,400 |
| Barley | 434 | 35,058 | 259 | 21,182 |
| Rye | 22 | 1,650 | 15 | 1,125 |
| Flax | 28 | 2,100 | 26 | 1,950 |
| Canola | 343 | 25,725 | 149 | 11,175 |
| TOTAL | 3,204 | 276,676 | 2,870 | 250,049 |

**Commercial Service – Destinations
2007/08**



**Commercial Service – Destinations
2006/07**



Management's Report

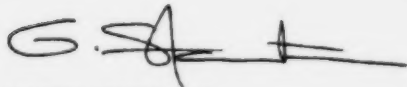
The accompanying financial statements have been prepared by management of the Saskatchewan Grain Car Corporation. These financial statements have been prepared in conformity with generally accepted accounting principles in Canada, consistently applied using management's best estimates and judgment where appropriate. Management is responsible for the reliability and integrity of the Financial Statements and other information contained in the Annual Report.

The integrity of financial records from which these financial statements are prepared is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are executed in accordance with proper authorization, transactions are appropriately recorded in order to permit preparation of accurate financial statements and assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived.

Management believes that the financial statements in this Annual Report present fairly the financial position of the Corporation for the year ending July 31, 2008.

The Board of Directors has fulfilled its responsibility with respect to the financial position of the Corporation by reviewing and approving the financial statements for the year ending July 31, 2008.

The financial statements have been audited by the Corporation's external auditors, Skilnick Besler Miller Moar & Co., Chartered Accountants, and approved by the Provincial Auditor and the Provincial Comptroller's Division of Saskatchewan Finance.

A handwritten signature in black ink, appearing to read 'G. Stamatinos', with a long horizontal line extending to the right.

George Stamatinos

Regina, Saskatchewan
September 20, 2008

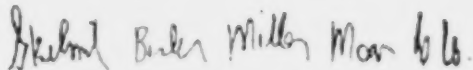
Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Saskatchewan Grain Car Corporation as at July 31, 2008, and the statements of operations and net assets, change in net financial assets and cash flows for the year then ended. The Corporation's management is responsible for preparing these financial statements for Treasury Board's approval. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at July 31, 2008 and the results of its operations and net assets, change in net financial assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



SKILNICK BESLER MILLER MOAR & CO.
Chartered Accountants

Melville, Saskatchewan
September 12, 2008

Statement of Financial Position

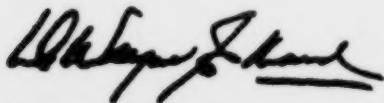
as at July 31, 2008

STATEMENT 1

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|----------------------|
| FINANCIAL ASSETS | | |
| Cash and temporary investments (Note 2) | \$ 7,715 | \$ 4,619 |
| Due from General Revenue Fund (Notes 4 & 7) | 1,981,574 | 878,372 |
| Accounts receivable (Note 7) | 850,340 | 439,218 |
| Other investments (Notes 2 & 6) | 407,349 | 407,349 |
| TOTAL FINANCIAL ASSETS | <u>\$ 3,246,978</u> | <u>\$ 1,729,558</u> |
| LIABILITIES | | |
| Accounts payable and accrued liabilities (Note 7) | \$ 29,123 | \$ 176,370 |
| Goods and services tax payable | 6,319 | 7,639 |
| Deferred fleet revenue (Note 2, 3, & 7) | 447,122 | 233,619 |
| TOTAL LIABILITIES | <u>\$ 482,564</u> | <u>\$ 417,628</u> |
| NET FINANCIAL ASSETS – STATEMENT 3 | <u>\$ 2,764,414</u> | <u>\$ 1,311,930</u> |
| NON-FINANCIAL ASSETS | | |
| Tangible capital assets (Notes 2 & 5) | \$ 16,531,890 | \$ 17,928,659 |
| TOTAL NON-FINANCIAL ASSETS | <u>\$ 16,531,890</u> | <u>\$ 17,928,659</u> |
| NET ASSETS – STATEMENT 2 | <u>\$ 19,296,304</u> | <u>\$ 19,240,589</u> |

(See Accompanying Notes to Financial Statements)

Approved on behalf of the Board:



Hon. D. Wayne Elhard
Chairperson of the Board

Statement of Operations and Net Assets

For the Year Ended July 31, 2008.

STATEMENT 2

| | <u>BUDGET</u> | <u>2008</u> | <u>2007</u> |
|---|-----------------------|----------------------|----------------------|
| REVENUES | | | |
| Car leasing – Alternate use (Note 3) | \$ 1,400,000 | \$ 1,864,169 | \$ 1,629,790 |
| Interest (Notes 4 & 8) | 12,500 | 36,831 | 28,109 |
| Consulting Services | Nil | Nil | 6,268 |
| Fleet revenue (Note 7) | Nil | Nil | 999,325 |
| Model car royalties | 10,000 | Nil | Nil |
| Other | Nil | 800 | 24 |
| TOTAL REVENUES | <u>\$ 1,422,500</u> | <u>\$ 1,901,800</u> | <u>\$ 2,663,516</u> |
| EXPENSES | | | |
| Administration (Schedule 1) | \$ 167,000 | \$ 90,233 | \$ 185,598 |
| Amortization (Notes 2 & 5) | 1,272,000 | 1,265,937 | 1,277,359 |
| Destroyed grain cars – Fleet assets | 115,000 | 130,832 | 118,702 |
| Farmer Rail Car Coalition Funding (Note 10) | Nil | Nil | 56,268 |
| Fleet repair and maintenance | 620,000 | 30,000 | 1,028,687 |
| Salaries and benefits (Notes 8 & 9) | 520,000 | 312,850 | 315,472 |
| Travel and sustenance | 25,000 | 16,233 | 14,501 |
| TOTAL EXPENSES | <u>\$ 2,719,000</u> | <u>\$ 1,846,085</u> | <u>\$ 2,996,587</u> |
| SURPLUS (DEFICIT) FOR THE YEAR | <u>\$ (1,296,500)</u> | \$ 55,715 | \$ (333,071) |
| Net Assets, beginning of year | | 19,240,589 | 20,573,660 |
| Dividends paid to the General Revenue Fund | | Nil | (1,000,000) |
| NET ASSETS, END OF YEAR | | <u>\$ 19,296,304</u> | <u>\$ 19,240,589</u> |

(See Accompanying Notes to Financial Statements)

Statement of Change in Net Financial Assets

For the Year Ended July 31, 2008.

| | STATEMENT 3 | |
|---|----------------------------|----------------------------|
| | <u>2008</u> | <u>2007</u> |
| Surplus (Deficit) for the year | \$ 55,715 | \$ (333,071) |
| Tangible capital assets | | |
| Acquisitions | Nil | (638) |
| Amortization | 1,265,937 | 1,277,359 |
| Destroyed grain cars – fleet assets | 130,832 | 118,702 |
| Net acquisitions of tangible capital assets | <u>\$ 1,396,769</u> | <u>\$ 1,395,423</u> |
| Increase in net financial assets | 1,452,484 | 1,062,352 |
| Net financial assets, beginning of year | 1,311,930 | 1,249,578 |
| Dividend paid to General Revenue Fund | Nil | (1,000,000) |
| NET FINANCIAL ASSETS, END OF YEAR | <u><u>\$ 2,764,414</u></u> | <u><u>\$ 1,311,930</u></u> |

(See Accompanying Notes to Financial Statements)

Statement of Cash Flows

For the Year Ended July 31, 2008.

STATEMENT 4

| | <u>2008</u> | <u>2007</u> |
|--|----------------------------|--------------------------|
| OPERATING ACTIVITIES | | |
| Surplus (Deficit) for the year | \$ 55,715 | \$ (333,071) |
| Non-cash items included in surplus (deficit) for the year: | | |
| – Amortization | 1,265,937 | 1,277,359 |
| – Destroyed grain cars – fleet assets | 130,832 | 118,702 |
| Change in non-cash operating activities: | | |
| – Increase in accounts receivable | (411,122) | (163,063) |
| – (Decrease) increase in accounts payable and accrued liabilities | (147,247) | 144,079 |
| – (Decrease) increase in goods and services tax payable | (1,320) | 1,671 |
| – Increase (decrease) in deferred fleet revenue | 213,503 | (780,614) |
| Cash provided by operating activities | <u>\$ 1,106,298</u> | <u>\$ 265,063</u> |
| CAPITAL ACTIVITIES | | |
| Acquisitions of tangible capital assets | <u>\$ Nil</u> | <u>\$ (638)</u> |
| FINANCIAL ACTIVITIES | | |
| Dividends paid to General Revenue Fund | <u>\$ Nil</u> | <u>\$ (1,000,000)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>\$ 1,106,298</u> | <u>\$ (735,575)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>882,991</u> | <u>1,618,566</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 1,989,289</u></u> | <u><u>\$ 882,991</u></u> |

SUMMARY OF CASH AND CASH EQUIVALENTS

| | | |
|--------------------------------|----------------------------|--------------------------|
| Cash and temporary investments | \$ 7,715 | \$ 4,619 |
| Due from General Revenue Fund | 1,981,574 | 878,372 |
| | <u><u>\$ 1,989,289</u></u> | <u><u>\$ 882,991</u></u> |

(See Accompanying Notes to Financial Statements)

Notes to Financial Statements

July 31, 2008.

1. STATUS OF THE CORPORATION

The Saskatchewan Grain Car Corporation is a Provincial Crown Corporation established on October 2, 1979 by Order-in-Council 1787/79. The Corporation continues under the authority and provisions of *The Saskatchewan Grain Car Corporation Act*.

The Corporation's mission is to maximize the economic benefits to Saskatchewan agriculture as a first priority, other Saskatchewan industries as a second priority, and the Province in general, through the effective and efficient use of its resources.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared by management in accordance with generally accepted accounting principles as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies are as follows:

a) Revenue

Revenues from car operating leases is recognized as the service is provided to the lessee and collection is reasonably assured.

Fleet revenue for destroyed grain cars, including interest earned on externally restricted funds, is recognized in the year when disbursements are made to purchase, upgrade, repair and maintain the grain car fleet.

b) Tangible Capital Assets

Tangible capital assets are recorded at cost and include all amounts directly attributable to the purchase or the betterment of the grain car fleet. Normal maintenance and repairs are expensed as incurred. Capital assets are amortized on a straight-line basis over their estimated useful lives of 40 years.

c) Investments

The investment in shares of West Central Road & Rail Ltd. is recorded at cost, and dividends from these shares are recorded as revenue when receivable.

d) Foreign Currency

The Corporation translates its foreign currency transactions into Canadian dollars by applying the exchange rate in effect on the transaction date. Monetary assets and liabilities are adjusted to reflect the exchange rate in effect at the reporting date. Exchange gains and losses are recognized in the Statement of Operations in the current period.

e) Measurement Uncertainty

The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

3. OPERATING AGREEMENTS

The Corporation entered into Operating Agreements from August 1, 2007 to July 31, 2009 with Canadian National Railway Company and Canadian Pacific Railway Limited which allows the railways to lease the Corporation's cars free of charge for the Movement of Grain. Movement of Grain refers to the movement to port of grain products as listed under the *Canada Transportation Act*.

The railway may lease the Corporation's cars for commercial service provided the cars are surplus to the requirements for Movement of Grain. Commercial service includes the carriage of grain at non-regulated freight rates as well as the carriage of other bulk commodities, such as potash.

The railways are responsible for maintaining and repairing the Corporation's cars at their own expense in accordance with Transport Canada, Federal Railway Administration and Association of American Railroads (AAR) Rules.

In the event that one of the Corporation's cars is damaged beyond economic repair, the railways are required to compensate the Corporation for the value of the car in accordance with Rule 107 of the Interchange Rules Manual of the AAR. All amounts received from the railways as compensation for destroyed grain cars are recorded as deferred fleet revenue.

4. DUE FROM GENERAL REVENUE FUND

Most of the Corporation's bank accounts are included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan. The Corporation's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis into the Corporation's bank account using the Government's thirty day borrowing rate and the Corporation's average daily bank balance. The Government's average thirty day borrowing rate for 2007/2008 was 3.85% (2006/2007 4.21%).

5. TANGIBLE CAPITAL ASSETS

The Corporation purchased 1,000 covered hopper cars in 1981. As of July 31, 2008, 85 cars have been destroyed; the remaining 915 cars are in service.

| | <u>Cost</u> | <u>2008 Accumulated Amortization</u> | <u>Net Book Value</u> | <u>2007 Net Book Value</u> |
|---------------|---------------------|--|---------------------------|------------------------------------|
| Rolling stock | <u>\$50,544,911</u> | <u>\$34,013,021</u> | <u>\$16,531,890</u> | <u>\$17,928,659</u> |

6. INVESTMENT IN SHARES OF WEST CENTRAL ROAD & RAIL LTD.

The Corporation owns 4,000 Class "E" shares of the capital stock of West Central Road & Rail Ltd. This equity investment represents the Corporation's commitment to support the Research and Development aspects of Phase II (the demonstration phase) of the Grain Logistics Pilot Project. Phase II of the Pilot Project is intended to provide complete logistical services from farm-gate to port in the case of export movements, and farm-gate to commercial processing facility in the case of movements to domestic destinations throughout North America.

The Class "E" shares are transferable, non-voting except for the entitlement to elect 2 of 13 directors and participate equally in dividends and the distribution of assets on liquidation or wind-up. As per the agreement, the issuer may repurchase or the Corporation may retract a minimum of 1,000 shares at their fair market value as established by an independent appraiser.

7. DEFERRED FLEET REVENUE AND RESTRICTED FUNDS

In accordance with the operating agreements described in Note 3, compensation for destroyed grain cars received from Canadian National Railway Company and Canadian Pacific Railway Limited is recorded as deferred fleet revenue as the agreements specify that the funds must be used for future purchase, upgrade, repair and maintenance of the grain car fleet.

The amounts for deferred fleet revenue and restricted funds are as follows:

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Deferred Revenue, Beginning of Year | \$ 233,619 | \$ 1,014,233 |
| Add restricted funds received: | | |
| Compensation for destroyed grain cars (Note 3) | 202,813 | 179,198 |
| Interest allocated (Notes 2, 4 & 8) | 10,690 | 39,513 |
| | <u>213,503</u> | <u>218,711</u> |
| Deduct fleet revenue recognized: | | |
| Acquisitions – fleet upgrades (Note 5) | Nil | (638) |
| Fleet repair and maintenance | Nil | (998,687) |
| | <u>Nil</u> | <u>(999,325)</u> |
| Deferred Fleet Revenue, End of Year | <u>\$ 447,122</u> | <u>\$ 233,619</u> |
| Restricted Funds | <u>2008</u> | <u>2007</u> |
| Due from General Revenue Fund | \$ 446,450 | \$ 281,936 |
| Accounts receivable | 871 | 59,385 |
| Accounts payable and accrued liabilities | (199) | (107,702) |
| | <u>\$ 447,122</u> | <u>\$ 233,619</u> |

8. RELATED PARTY TRANSACTIONS

These financial statements include transactions with related parties. The Corporation is related to all Saskatchewan Crown Agencies such as ministries, corporations, boards and commissions under the common control of the Government of Saskatchewan. Also, the Corporation is related to non-crown enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are recorded at the rate charged by those organizations and are settled on normal trade terms.

These transactions are as follows:

| | <u>2008</u> | <u>2007</u> |
|---|-------------|-------------|
| Deferred Fleet Revenue | | |
| Government of Saskatchewan (General Revenue Fund) Interest | \$ 10,690 | \$ 39,513 |
| Revenues | | |
| Government of Saskatchewan (General Revenue Fund) Interest | \$ 36,831 | \$ 28,109 |
| Expenses | | |
| Ministry of Highways and Infrastructure Salaries and Benefits | \$ 15,847 | \$ 8,076 |
| Information Technology Office Computer maintenance | \$ 14,940 | \$ 23,046 |
| Hardware | \$ 678 | \$ 1,586 |
| Software | \$ 336 | \$ 1,121 |
| Ministry of Government Services Rent – office space | \$ 34,000 | \$ 104,472 |
| Printing and copying | \$ 471 | \$ 436 |
| Office supplies | \$ 30 | \$ 1,450 |
| Consulting services | \$ Nil | \$ 363 |
| Saskatchewan Telecommunications Telecommunications | \$ 5,665 | \$ 6,828 |
| Workers' Compensation Board (Saskatchewan) Salaries and benefits | \$ 2,773 | \$ 2,521 |
| Saskatchewan Archives Board Conferences and Professional Development | \$ Nil | \$ 175 |

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

9. PENSION PLAN

The Corporation participates in a defined contribution pension plan for the benefit of its employees. The Corporation's financial obligation to the Capital Pension Plan (related party) is limited to making regular payments to match the amounts contributed by employees for current service. The Corporation's annual pension expense for 2008 amounted to \$22,131 (2007 - \$13,432).

10. FARMER RAIL CAR COALITION AGREEMENTS

The Corporation has signed agreements on October 16, 2002, June 16, 2004, May 5, 2005, June 13, 2005, and September 28, 2006 with the Farmer Rail Car Coalition (FRCC) to contribute \$861,385 in cash and/or in kind contributions (technical expertise) to support the research and development by the FRCC of a proposal by the FRCC to purchase on behalf of Western Canadian Farmers the Federal Fleet of approximately 13,000 rail hopper cars. Total contributions to date are \$861,385 consisting of \$571,153 in cash and \$290,232 in kind.

In May of 2006 the Federal Government announced they would retain ownership of the Federal Hopper Car Fleet.

On September 28, 2006 the Corporation entered into an agreement to assist with expenses related to the administrative and office closure costs up to and including September 30, 2006.

Schedule of Administration Expenses

For the Year Ended July 31, 2008.

SCHEDULE 1

| | <u>2008 Budget</u> | <u>2008</u> | <u>2007</u> |
|---|--------------------------|-------------------------|--------------------------|
| Advertising and promotion | \$ 2,000 | \$ 836 | \$ 7,813 |
| Bank charges | 500 | 503 | 215 |
| Computer hardware (Note 8) | 5000 | 678 | 1,586 |
| Computer maintenance (Note 8) | 29,000 | 14,940 | 23,046 |
| Computer software (Note 8) | 3,000 | 1,155 | 1,940 |
| Conferences and professional development (Note 8) | 2,500 | 1,893 | 1,552 |
| Consulting services (Note 8) | 35,000 | 5,057 | 3,698 |
| Miscellaneous | 3,000 | 1,645 | 1,590 |
| Office equipment and supplies (Note 8) | 5,000 | 1,740 | 3,605 |
| Printing, copying, postage and courier (Note 8) | 7,500 | 3,079 | 6,979 |
| Professional services | 11,500 | 9,220 | 16,429 |
| Rent – office space (Notes 8 & 10) | 40,000 | 36,129 | 105,787 |
| Subscriptions and memberships | 14,000 | 7,693 | 4,530 |
| Telecommunications (Note 8) | 9,000 | 5,665 | 6,828 |
| TOTAL – TO STATEMENT 2 | <u><u>\$ 167,000</u></u> | <u><u>\$ 90,233</u></u> | <u><u>\$ 185,598</u></u> |

(See Accompanying Notes to Financial Statements)

Expenditure Disclosure

For the year ending July 31, 2008

Employee receiving payments totaling \$50,000 or more for salaries or wages:

| | <u>2008</u> | <u>2007</u> |
|----------------|-------------------|-------------------|
| Kelly Moskoway | 101,667 | 92,563 |
| Tim Shoulak | <u>87,831</u> | <u>79,981</u> |
| Total | <u>\$ 172,544</u> | <u>\$ 172,544</u> |

Suppliers/consultants receiving payments totaling \$50,000 or more for goods and/or services:

| | <u>2008</u> | <u>2007</u> |
|--|------------------|---------------------|
| Farmer Rail Car Coalition | \$ Nil | \$ 50,000 |
| Ministry of Government Services (Formerly Saskatchewan Property Management) | 34,494 | 106,720 |
| GE Railcar Repair Services Company | Nil | 846,230 |
| Arco Graphics Inc. | <u>Nil</u> | <u>149,048</u> |
| Total | <u>\$ 34,494</u> | <u>\$ 1,151,998</u> |

Statistical Summary

| Year | Cars In Service | | | Cars Destroyed | | | Car Leasing Revenues |
|---------------------|-----------------|-----|-------|----------------|----|-------|------------------------------------|
| as of July 31, 2008 | | | | | | | |
| | CN | CP | Total | CN | CP | Total | |
| 1979/80 | — | — | — | — | — | — | — |
| 1980/81 | 477 | 273 | 750 | — | — | — | — |
| 1981/82 | 477 | 523 | 1,000 | — | — | — | \$ 56,294 |
| 1982/83 | 477 | 523 | 1,000 | — | — | — | \$ 11,850 |
| 1983/84 | 475 | 523 | 998 | 2 | — | 2 | — |
| 1984/85 | 475 | 523 | 998 | — | — | — | — |
| 1985/86 | 475 | 523 | 998 | — | — | — | — |
| 1986/87 | 474 | 523 | 997 | 1 | — | 1 | — |
| 1987/88 | 474 | 523 | 997 | — | — | — | — |
| 1988/89 | 474 | 523 | 997 | — | — | — | \$ 1,099,441 |
| 1989/90 | 474 | 523 | 997 | — | — | — | \$ 92,310 |
| 1990/91 | 474 | 523 | 997 | 1 | — | 1 | \$ 146,343 |
| 1991/92 | 473 | 522 | 995 | — | 1 | 1 | \$ 268,342 |
| 1992/93 | 473 | 522 | 995 | — | — | — | \$ 326,047 |
| 1993/94 | 472 | 522 | 994 | 1 | — | 1 | \$ 816,083 |
| 1994/95 | 472 | 518 | 990 | — | 4 | 4 | \$ 628,807 |
| 1995/96 | 470 | 514 | 984 | 2 | 4 | 6 | \$ 946,233 |
| 1996/97 | 468 | 514 | 982 | 2 | — | 2 | \$ 991,526 |
| 1997/98 | 468 | 509 | 977 | — | 5 | 5 | \$ 1,089,116 (See note 1, page 27) |
| 1998/99 | 468 | 509 | 977 | — | — | — | \$ 1,305,593 |
| 1999/00 | 464 | 508 | 972 | 4 | 1 | 5 | \$ 1,189,104 (See note 2, page 27) |
| 2000/01 | 458 | 498 | 956 | 6 | 10 | 16 | \$ 1,304,835 |
| 2001/02 | 455 | 498 | 953 | 3 | — | 3 | \$ 1,033,158 |
| 2002/03 | 454 | 497 | 951 | 1 | 1 | 2 | \$ 1,315,865 |
| 2003/04 | 442 | 497 | 939 | 12 | — | 12 | \$ 1,766,041 |
| 2004/05 | 440 | 494 | 934 | 2 | 3 | 5 | \$ 1,543,736 |
| 2005/06 | 434 | 494 | 928 | 6 | — | 6 | \$ 1,064,115 |
| 2006/07 | 429 | 493 | 922 | 5 | 1 | 6 | \$ 1,629,790 |
| 2007/08 | 424 | 491 | 915 | 5 | 2 | 7 | \$ 1,864,169 |
| Total | 424 | 491 | 915 | 53 | 32 | 85 | \$ 20,488,798 |

Notes to Statistical Summary

1. Revenue adjustments for 1997/98 fiscal year

| | |
|---|----------------------------|
| Car leasing revenue recognized as per 1997/98 Financial Statement | \$ 1,507,271 |
| - Bad debt allowance as shown in 1997/98 Financial Statement | (\$ 160,000) |
| - Bad debt allowance as shown in 1998/99 Financial Statement | (\$ 53,543) |
| - Settlement recovery with CP for western Canada commercial moves from 1991 to 1997 realized in 1998/99 | <u>(\$ 204,612)</u> |
| Car leasing revenue actually realized in 1997/98 | <u><u>\$ 1,089,116</u></u> |

2. Revenue adjustments for 1999/00 fiscal year

| | |
|---|----------------------------|
| Car leasing revenue recognized as per 1999/00 Financial Statement | \$ 1,639,104 |
| - Settlement recovery with CN for western Canada commercial moves from 1991 to 1997 realized in 1999/00 | <u>(\$ 450,000)</u> |
| Car leasing revenue actually realized in 1999/00 | <u><u>\$ 1,189,104</u></u> |

Corporate Information

Definitions

Bad Orders

A bad order is a car that had been deemed mechanically unfit for service.

Car Cycles

A car cycle is the time for a car to complete a trip from origin, to destination, and back to the next origin.

Commercial Service

Commercial service is defined as the movement of any commodity not destined to port for export, or the movement of commodities to port not covered under Schedule II of the Canada Transportation Act. For these commercial movements the Corporation receives a lease fee.

Domestic and Export Markets

Canada, United States, and Mexico make up the domestic or North American market; the rest of the world is the export or offshore market.

Dunnage

Is the name for the materials used in holds and containers to protect goods and their packaging from moisture, contamination and mechanical damage. Dunnage may include plastic films, jute coverings, tarpaulins, wood (wooden dunnage, i.e.; pallets), rice matting, non-wovens, liner bags or also inlets etc.. Depending on the use to which it is put, dunnage may be divided into floor, lateral, interlayer and top dunnage.

Gross Weight

Total of weight of car, net load, and dunnage.

Light Weight (LT WT)

Weight of empty railroad car expressed in pounds. This figure is stenciled on the car. Also referred to as Tare Weight.

Load Limit (LD LMT)

Absolute maximum allowable weight of load, including both net weight and dunnage, that a freight car is authorized to carry. This figure is stenciled on the car.

Metric tonne

A metric tonne equals 2,204.6 pounds or 1000 kilograms, and is 10 percent larger than a 2000 pound short ton.

Phosphate Rock

Also known as phos. rock, this product is the main source of phosphoric acid for phosphate fertilizers and industrial products. A form of calcium phosphate, it also contains other materials.

Potash

Typically denotes materials containing potassium, particularly potassium fertilizer. Most fertilizer is muriate of potash (KCl), potassium chloride. Potassium combines with other minerals in specialty fertilizers.

Statutory Grain Service

Statutory grain service is the transportation of commodities which are moved to port for export as defined in Schedule II of the Canada Transportation Act. Under the 1981 Operating Agreement between the Saskatchewan Grain Car Corporation, Canadian Wheat Board, CN Rail, and CP Rail, the Corporation allows CN and CP to use Corporation owned cars for the movement of Schedule II commodities to port facilities in western Canada at no cost to the railways.

For additional information:

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Notes

